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## BNM maintains its overnight policy rate at 3.25%

Economic Update

### No change in statutory reserve requirement ratio

Bank Negara Malaysia (BNM) decided to maintain its overnight policy rate (OPR) at 3.25%, for the eleventh straight MPC meeting since July 2014. Similarly, there was no change in the statutory reserve requirement (SRR) ratio, where the ratio was kept at 3.5%, after a 50bps cut from 4.0% in January 2016. With slower but still healthy GDP growth of 4.2% yoy in 1Q16, the MPC decision to hold the OPR and SRR unchanged was largely in line with our earlier expectations, despite some slowdown in loan growth and money supply in 1Q16, as BNM assessed that *“the growth of financing to the private sector is consistent with the pace of economic activity and financing conditions remain supportive of economic growth.”*

## Malaysia- OPR

On economic and financial development in global context, BNM acknowledged that *“global economic expansion continues, albeit at a more moderate pace, across major advanced and emerging market economies in the first quarter of the year. In Asia, domestic demand remains the key contributor to growth amid continued weakness in the external sector.”* This follows several regional countries, which reported 1Q16 GDP growth rate that surprised slightly on the upside, including Japan and Thailand. Nevertheless, BNM also cautioned that, despite the policy rate cuts and quantitative easing programme by major central banks, global growth will be constrained by structural issues and geopolitical developments. Furthermore, while global financial market volatility and investor sentiment have improved recently, BNM also guided that it remains vulnerable to policy and market developments. This may be in reference to the potential rate hike by US Federal Reserve (US Fed) as early as June, as shown in the recent release of the FOMC minute.

Malaysia's real GDP growth slowed from 4.5% yoy in 4Q15 to 4.2% in 1Q16, as a result of slower exports growth, but domestic demand also moderated. This was due mainly to private investment growth, which slowed to the lowest level in 4.5 years, attributed to lower investment by O&G industry and commodities sector. However, the statement by central bank remained upbeat that *“overall investment activity will remain supported by the implementation of infrastructure projects and capital spending in the manufacturing and services sectors.”* The BNM also expressed confidence on private consumption growth momentum by noting that *“private consumption is expected to expand further, supported by continued growth in wages and employment, and the additional disposable income from measures announced during the 2016 Budget Recalibration.”* The country's private consumption growth rose to 5.3% yoy in 1Q16 (4.9% in 4Q15), notwithstanding the high base effect in the corresponding quarter in the previous year. We believe BNM may be of the view that, amongst the measures, the reduction in employee contribution to EPF from 11% to 8% effective March 2016, would provide some support to consumption spending in the quarters ahead. The MIER consumer confidence index rose by 9.1 points to 72.9 in 1Q16.

With continued uncertainties arising from global developments, we believe BNM will likely maintain its OPR at 3.25% throughout 2016. *“The MPC also decided for future Monetary Policy statements to be released at 3:00 p.m. on the second day of the MPC meeting (previously 6:00p.m.)”*

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Focus Charts

Chart 1: OPR vs SRR

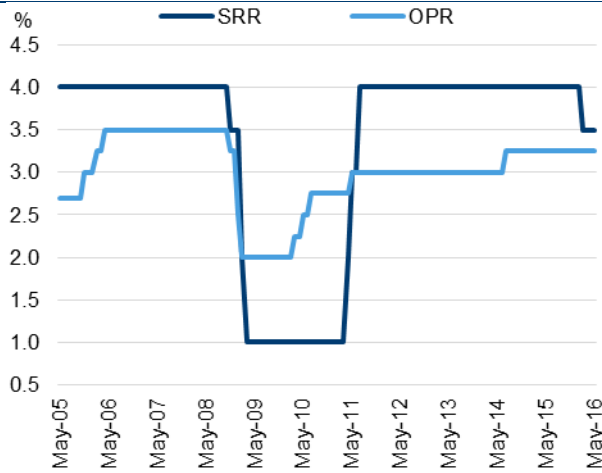


Chart 2: Malaysia economic growth

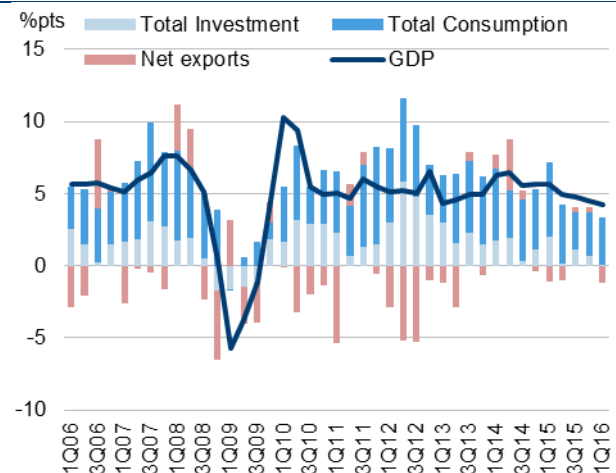


Chart 3: Consumer sentiment has improved

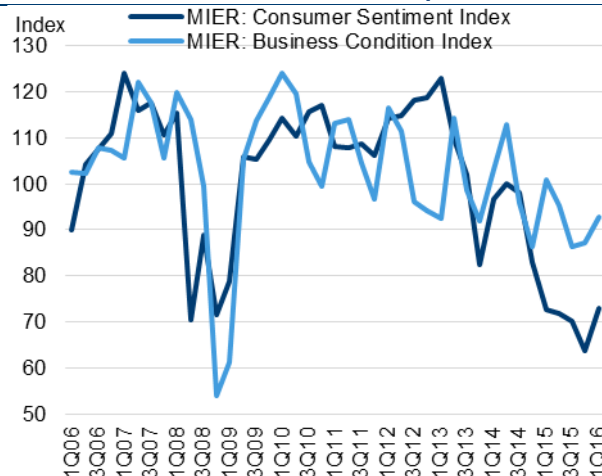


Chart 4: Brent price vs inflation

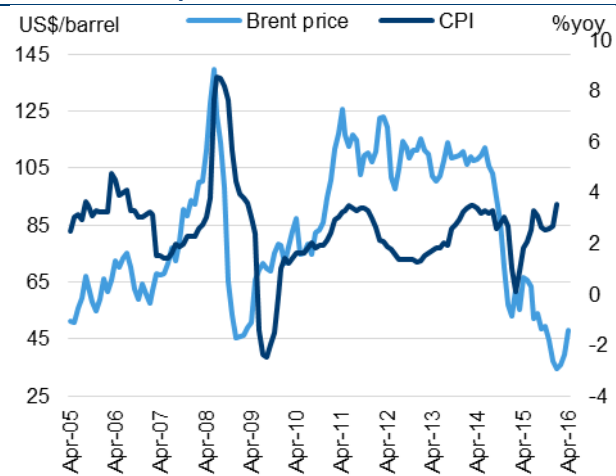


Chart 5: MYR vs REER

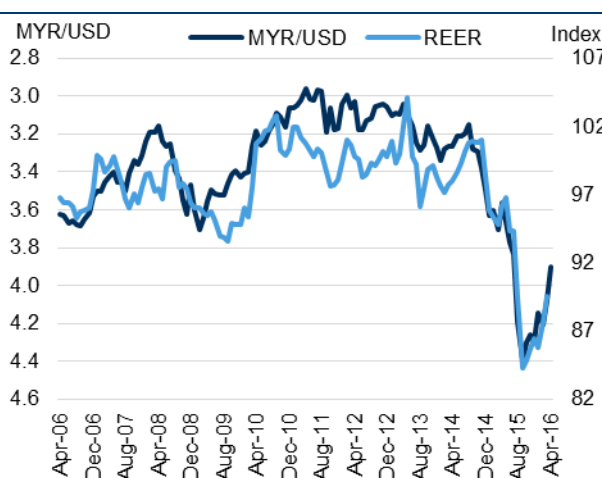
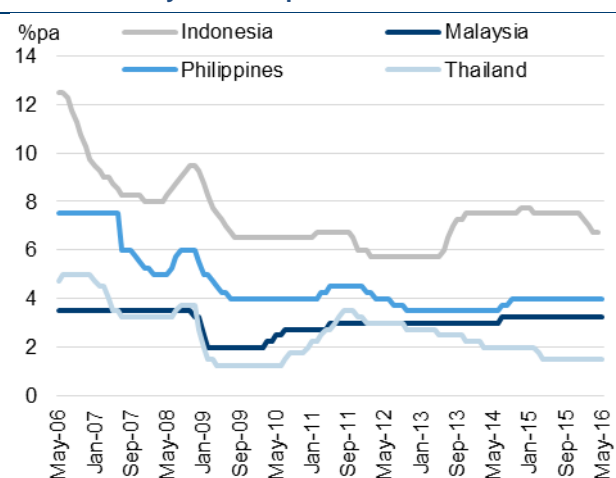


Chart 6: Policy rate comparison



Source: All data for charts sourced from BIS, CEIC, BNM

**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

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